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KEY ECONOMIC INDICATORS FOR AUSTRALIA

Values in millions of U.S. dollars unless otherwise specified. Percentage changes have been calculated in Australian dollars to eliminate the effects of exchange-rate movements.

Fiscal year ending June 30*	1986	1987	1988	1989 Projections
Exchange rates: U.S.$1.00 =	A$1.4767	1.4311	1.3210	1.2350
Domestic Economy				
Population (millions)	16.0	16.3	16.5	16.8
GDP at current prices	159,953	181,943	220,959	246,000
Per Capita GDP at current prices	9,997	11,162	13,391	14,643
GDP at constant 84/85 prices	149,812	158,793	178,176	197,636
% change	4.6	2.7	3.6	3.7
Consumer Price Index 6/81=100	149	163	175	186
% change	8.4	9.3	7.3	6.5
Wage and Salary Index 6/85=100	102.6	107.6	111.7	117.8
% change	2.6	4.9	3.8	5.5
Federal Budget Balance as % of GDP	-2.4	-1.0	0.7	1.7
Gross PSBR as % of GDP	5.9	4.0	1.5	0.6
Production and Employment				
Labor Force (1,000s)	7,442.9	7,652.8	7,841.5	8,050.0
Unemployment Rate (avg %)	7.9	8.3	7.8	7.3
Industrial Production Index 6/77=100	111	109	113	115
Money and Credit				
M3 (average)	66,230	75,682	93,714	112,269
% change	14.9	10.8	14.3	12.0
Broad Money (average)	107,387	121,665	147,933	177,223
% change	13.7	9.8	12.2	12.0
Prime Lending Rate (%)	18.8	17.9	14.1	15.0
Balance of Payments				
Merchandise Exports (f.o.b.)	21,811	24,752	30,699	37,583
Merchandise Imports (f.o.b.)	24,159	25,965	30,590	37,458
Trade Balance	-2,348	-1,213	109	125
Current Account Balance	-10,027	-9,252	-9,014	-8,502
Official Reserve Assets	8,820	12,294	15,278	19,610
Gross External Debt	61,821	73,045	87,011	101,215
Net External Debt	50,251	57,350	67,148	74,784
Net Debt as % of GDP	31.5	31.5	30.4	30.4
Net Debt Service Ratio, Interest only (%)	16.5	18.1	17.2	17.0
Gross Debt Service Ratio, All costs (%)	45.8	64.2	58.0(e)	56.0

*AFY - the Australian fiscal year is July 1-June 30
Sources: Australian Bureau of Statistics, U.S. Department of Commerce, Embassy forecasts

SUMMARY

International market prices for a wide range of Australia's farm and mineral commodity exports increased significantly in 1988. Australia's terms of trade improved by 9.4 percent from AFY1986/87 to AFY1987/88. The increase in commodity prices allowed the government to continue its economic restructuring program in the context of an expanding economy.

Australia's gross domestic product (GDP) growth ranks it in the top third of Organization for Economic Cooperation and Development (OECD) member states. Real GDP growth was 4.4 percent in the year to March 1988 and 3.4 percent in the year to June 1988.

Inflation at 7.3 percent and growth in average weekly earnings at 6.4 percent also exceed the OECD average.

Australia's balance of payments for AFY1987/88 recorded a current account deficit of $9.01 billion, slightly exceeding the government's $8.52 billion deficit forecast, but 10 percent below the AFY1986/87 deficit in Australian dollar terms.

For 2 years, the Australian dollar has appreciated vis-a-vis the U.S. dollar. On a trade-weighted basis, the Australian dollar increased by 5.7 percent in the 12 months ending June 1988, after gaining 0.5 percent in the previous year.

Short-term interest rates have risen since mid-1988, while 10-year bond rates have fluctuated around 11.9 percent.

Foreign debt remains a major preoccupation of the government. In the 4 years to June 1988, Australia's net foreign debt jumped by more than $44 billion. As a proportion of GDP, net debt increased from 15.5 to 30.4 percent over the same period.

In AFY1987/88 the government produced the first federal budget surplus in 35 years. The surplus is expected to double in the fiscal year ending in June 1989 to about $4.14 billion.

AUSTRALIA'S ECONOMY IN BRIEF

Throughout its modern history, the Australian economy has consisted of a manufacturing/service sector dedicated to domestic requirements coupled with an export-oriented agricultural and minerals industry.

The manufacturing sector is limited by Australia's small domestic market. Although a strong union movement makes Australian labor more expensive than that in nearby Asian countries, Australia developed a broad-based manufacturing sector due largely to an extensive and effective range of tariffs and other protective measures. Trade barriers have long insulated the domestic industry from open competition from abroad.

The traditional ways of doing business in Australia are undergoing radical change, however. The Labor government under Prime Minister Bob Hawke has sought to liberalize the economy and foster greater openness and competitiveness. Accordingly, longstanding industry protection is being dismantled.

Treasurer Paul Keating, the point man in the government's reform efforts, has advanced a pragmatic but fiscally conservative economic reform policy. By floating the Australian dollar, and allowing it to fall dramatically from 1984 to 1987, the government rendered the manufacturing sector less susceptible to imports and, at the same time, more capable of competing overseas. In 1984, the Labor government liberalized the financial sector, exposing it to international competition. The government later embarked on an ambitious program to reduce industrial tariff barriers and corporate taxes.

With the government's macro-economic policy largely in place, business and labor alike are now in the process of adapting to new business conditions. Since September 1987, the focus of government policy has shifted somewhat from macro- toward micro-economic reform.

PART A - CURRENT ECONOMIC SITUATION AND TRENDS

Aggregate Demand and Output: Australia's economy is diversified among primary, manufacturing and service industries. Exports are dominated, however, by agricultural and mineral commodities. In 1987, services accounted for 70 percent of GDP, but primary agricultural and mineral products accounted for 72.4 percent of exports.

Australia leads the world in wool production and is a significant supplier of wheat, barley, dairy produce, meat, sugar, and fruit. Australia is also among the world's leading exporters of minerals and metals, particularly black coal, iron ore, and alumina/aluminum.

Australia's economic forecast is generally bright. GDP growth is currently among the most vigorous in the OECD. Real GDP growth was 4.4 percent in the year to March 1988 and 3.4 percent in the year to June. Spending on capital investment, home purchases and construction increased markedly in 1988. Inflation and unemployment rates decreased. In AFY1987/88, government produced the first federal budget surplus in 35 years.

On the negative side, gross external debt, at $87 billion, is extraordinarily high for a country of 16.5 million people. The current account deficit, although diminishing, remains excessive. Inflation and average weekly earnings growth rates are above the OECD average. Industrial relations are a major investment consideration. Wages are established annually through a tripartite national bargaining and arbitration mechanism involving the unions, business management, and government. In the 1988 wage round, government sought wage gains of 5.5 percent, equal to the official average inflation rate forecast for the fiscal year.

The AFY1988/89 budget projects a fiscal surplus of $4.14 billion, reduction of net public sector borrowing to zero, and accelerated repayment of foreign debt. It aims to maintain the pace of structural readjustment, remove the government as a competitor to the private sector in the financial market, stimulate business investment, derive strong revenues during a cyclical boom, and curb domestic consumption.

Balance of Payments: Australia's balance of payments for AFY1987/88 recorded a current account deficit of $9.01 billion, slightly more than the government's forecast in September 1987 of a $8.52 billion deficit, but 10 percent below the AFY1986/87 deficit in Australian dollar terms. The current account deficit equaled 4.1 percent of GDP in AFY1987/88.

In AFY1987/88 the Australia's merchandise trade balance recorded a surplus of $109 million, in contrast to AFY1986/87 deficit of $1.21 billion. The improvement owed much to booming commodity prices and a sharp recovery in Australia's terms of trade. In value terms, export growth for the year at 14.4 percent outstripped import growth of 8.7 percent. Export volumes were down modestly.

Exports in AFY1987/88 were valued at $30.7 billion. The leaders were wool, coal, wheat, beef and veal, nonmonetary gold, iron ore and concentrates, alumina, aluminum and aluminum alloys, crude petroleum, and petroleum products. Imports into Australia in AFY1987/88 totaled $30.6 billion. In value terms, road vehicles, office machines and ADP equipment, general industrial machinery and equipment, electrical machinery, apparatus and appliances, textiles, petroleum and petroleum products, and specialized industrial machinery were the leading imports.

The budget for AFY1988/89 forecasts that the current account deficit will decline to $7.7 billion by June 30, 1989, equal to 3 percent of GDP. First-quarter trade results have clouded that forecast, however.

Money and Banking: Monetary policy in Australia has tightened gradually since early 1988. After a slight rise in March in response to apparent overheating in the housing sector, interest rates rose again in May and October following the release of higher-than-expected Consumer Price Index (CPI) figures. The Australian Government's May 1988 budget papers assume "monetary policy remaining relatively firm throughout 1988/89." It is anticipated that monetary policy will be eased only when there are signs that economic activity, particularly in housing, is slowing or in response to a crisis in global foreign exchange and securities markets.

The Australian dollar recorded a steady rise against other major currencies through the first 6 months of 1988. In October it stabilized in the wake of poor balance-of-payments results. Against the U.S. dollar, the local currency has returned to levels existing prior to the major depreciation in 1985, after adjustment for relative inflation rates. On a trade-weighted basis, the Australian dollar increased by 5.7 percent in the year ending June 1988, an improvement on the 0.5 percent gain recorded in the year ending June 1987.

Over recent months, short-term interest rates have risen to 14.18 percent, while 10-year bond rates have fluctuated around 11.9 percent.

Foreign Debt: Foreign debt remains a major preoccupation of the government. In the 3 years to June 1987, partly as a result of the depreciation of the Australian dollar, Australia's net foreign debt jumped by more than $36 billion, or 178 percent in Australian dollar terms. Net foreign debt doubled from 15.5 percent of GDP in June 1984 to 31.5 percent of GDP in June 1987. In June 1988, gross foreign debt stood at $87 billion, an increase of almost 10 percent in Australian dollar terms over the June 1987 figure of $73 billion. Net foreign debt reached $67 billion in the same period, growing by 8 percent in Australian dollar terms over the previous year. Roughly 80 percent of Australia's foreign debt is denominated in foreign currencies, chiefly in U.S. dollars.

Over the past year, however, the net external debt ratio has declined slightly. Net external debt equaled 31.5 percent of GDP in June 1987, but had fallen to 30.4 percent by June 1988. In May 1988, the Australian Government announced plans for no net overseas government borrowing during AFY1988/89 due to a A$5.5 billion fiscal surplus; the second budget surplus recorded in the past 35 years.

Both gross and net foreign debt declined in the June quarter of 1988, reflecting the firmer Australian dollar and the repayment of an estimated $3.5 billion worth of federal government overseas borrowings.

Industrial Relations: A key to the government's economic restructuring is its policy to contain wage increases and raise labor productivity. In March 1987, the government and the trade unions agreed to a two-tiered national wage settlement procedure by which a minority fraction of the wage claim, the first tier, was granted by the National Arbitration Commission to all wage earners, and the majority fraction or second tier was negotiated at the industry or plant level. The second-tier wage increase was tied to productivity increases acceptable to management, labor, and the arbitration panels.

In August 1988, the Arbitration Commission awarded a maximum 5.2 percent wage increase, which was lower than the increase proposed by the government and the trade union movement, during the period September 1988 to July 1989. The award was designed to keep wage earners on a par with inflation projections, but provide no wage-based increase in real income. The Commission noted that all wage earners (including those outside the jurisdiction of the Commission) have fallen behind the change in the CPI price index by an annual average of 0.2 percent since 1983.

The government and the Australian Council of Trade Unions (ACTU) are now negotiating to extend the wage policy through to the end of calendar 1989. Union leaders insist that the Prime Minister honor his commitment not only to prevent wages from falling further behind inflation but to allow for an increase in real incomes.

Both government and union leaders are aware that continued erosion of real incomes poses a threat to the Labor government in the next election. Treasurer Keating's proposed, but as yet unspecified, mid-1989 tax cut is designed to provide higher real disposable incomes without recourse to wage increases that exceed the inflation rate.

Meanwhile, government and leaders of the trade union movement continue their joint effort to educate workers to the realities of Australia's international trade position and the need for wage restraint and gains in productivity. The breakthrough September 1988 reform of work practices in the coal industry indicates that progress on both fronts is possible.

Manufacturing: Australian Bureau of Statistics' estimates show that manufacturing output grew by 5.3 percent in AFY1987/88 as factories recovered from the mini-recession of 1986. Although the seasonally adjusted estimate of manufacturing output for the April to June 1988 quarter sagged 2.5 percent, the level of manufacturing production was 20 percent higher than its mid-1983 trough.

On May 25, 1988, the government announced a broad program of micro-economic reforms, including tariff reductions in agriculture and industry. For the manufacturing sector, tariff reductions of around 20 percent will bring average effective protection down from the 1987 level of 19 percent to 14 percent by 1992.

The reductions will not have a uniform impact across industry groups. In two industries -- passenger motor vehicles (PMV) and textiles, clothing and footwear (TCF) -- protection will remain above the general maximum tariff level of 15 percent, although protection for both is being reduced in the context of multi-year rationalization plans.

The planned tariff cuts in the manufacturing sector are expected to lead to some increase in imports, but they will provide offsetting savings on input costs and more efficient allocation of resources over the longer term.

The outlook for manufacturing appears favorable. Investment levels rebounded in the first half of 1988. Recent data confirm that the October 1987 stock market collapse had only a temporary impact on general industry investment. Confidence within the manufacturing sector rebounded following the May Economic Statement, which cut the corporate taxation rate to 39 percent. Business capital spending is forecast to rise by 12 percent this fiscal year. Because most capital equipment in Australia is imported, the balance-of-payments consequences of factory modernization are burdensome.

Australia continues to diversify its export base away from primary products. Manufactured exports as a percentage of total exports rose from 19.2 percent in AFY1984/85 to 23.5 percent in AFY1987/88. In the latest fiscal year, exports of simply transformed manufactures grew 36.6 percent and of elaborately transformed manufactures, 10.5 percent.

The latest private-sector surveys of manufacturers reveal short-term confidence. Businesspeople expect continued strong output growth, a rise in capacity utilization, and higher sales and profits.

Agriculture: The promising mid-year outlook for Australian rural industries has been further consolidated in recent months. Favorable seasonal conditions in most of Australia provided a good start to winter crops and established suitable conditions for large summer plantings. The gross value of rural production is forecast to increase by 9 percent to $17.5 billion in AFY1988/89, following a 15 percent rise in AFY1987/88.

The strong demand for wool experienced at mid-year has continued into the new season, and the market indicator price is forecast to remain close to last season's average of US$7.59/kg. The major uncertainties are exchange rates and fashion. With the minimum reserve price raised 35 percent to US$7.04/kg, prices are likely to move within a narrower range than last season.

After a period of stagnation, wheat prices are now at record levels. According to industry estimates, wheat plantings are up 5 percent, and the United States drought is expected to underpin a strong export market.

Reflecting lower world prices and the stronger Australian dollar, the Australian base price for cotton is forecast to average US$1.42/kg in AFY1988/89, 26 percent below last season's average. Although cotton prices have fallen relative to prices of competing crops, the gross margin for cotton is forecast to remain favorable.

Mutton saleyard prices are forecast to rise by almost 20 percent. After 2 years of sustained good prices, saleyard prices for lamb are forecast to rise only 2 percent in AFY1988/89. Improved access to the Japanese market and good seasonal conditions support a buoyant outlook for the Australian cattle industry. The average saleyard price for beef and veal is consequently forecast to increase by about 8 percent in AFY1988/89. With a growth of only 3 percent in average export prices and tighter domestic supplies, export volumes of beef and veal are expected to decline by 5 percent to 585,000 metric tons.

Mining: Australian miners experienced uneven results during the first half of 1988. In the June quarter, exports of primary minerals and primary mineral products amounted to $3.2 billion, 6.6 percent off from the preceding quarter and only 3.5 percent higher than the quarterly average in 1987.

Two of the nation's most important minerals performed weakly. Black coal production suffered from low prices, sporadic strikes, and inclement weather. In the June quarter, black coal exports totaled $741 million, down 22 percent on the quarterly average achieved during 1987. Similarly, June quarter 1988 iron ore exports were 12 percent lower than in the March quarter, and 5 percent below the 1987 quarterly average.

Elsewhere, the minerals picture was considerably brighter. Aluminum exports at $349 million in the June quarter 1988 were up 16 percent compared with the preceding quarter, and up 30 percent compared with the 1987 quarterly average. Alumina exports, $334 million in the June quarter of 1988, were off 2 percent from the preceding quarter, but up 15 percent on the preceding year's quarterly average. In the June quarter of 1988, gold export volumes rose to 30.3 metric tons, 40 percent higher than the average quarterly export volumes in 1987. As a result, June quarter gold export revenues surged to $466 million, 44 percent higher than the 1987 quarterly average. Minor metals -- nickel, lead, copper and zinc -- also registered sustained price rises in 1988.

PART B - IMPLICATIONS FOR THE UNITED STATES

United States-Australia Trade: Trade between the United States and Australia has grown steadily in recent years. In the 1987 calendar year, total bilateral trade was valued at $8.8 billion, up from $8.2 billion in 1986. In the first 8 months of 1988, total trade between the United States and Australia amounted to $6.79 billion.

In 1987, the United States supplied 21.2 percent of all Australian imports. Australia shipped 11.4 percent of its total exports to the United States.

Because Australia's exports are dominated by farm and mineral commodities which the United States also produces, Australia cannot capitalize on comparative advantage in its trade with the United States to the degree it does with Japan and many other overseas buyers. The United States enjoys a positive balance in its trade with Australia. During 1987, the United States exported $5.5 billion worth of goods and services to Australia and imported $3.3 billion worth, yielding a surplus for the United States of $2.2 billion.

The leading U.S. exports to Australia are transport equipment (chiefly aircraft), vehicles and parts ($877 million in 1987), computer software and peripherals ($799 million), and chemicals and chemical related products ($670 million).

The principal U.S. imports from Australia are meat, mainly beef ($453 million in 1987), wool ($110 million), and petroleum ($168 million).

Investment: Cumulative U.S. direct investment in Australia totaled nearly $11 billion in 1987. Investment consists of U.S. equity in stock, paid-in capital, reinvested earnings, and net debt where a U.S. company owns at least 10 percent of the foreign company.

Liberal investment regulations and a stable government make Australia highly attractive to investors. The Australian dollar is freely traded internationally, and the financial services sector is highly competitive and outward-looking. However, compared with other OECD countries, Australia suffers a relatively high inflation rate, 7.1 percent on average over the year to September 1988. Compared with neighboring countries in South and Southeast Asia, Australia has relatively high taxation levels, transportation expenses, and labor costs.

Foreign investment is restricted in banking, civil aviation, media, uranium, and developed urban real estate. Elsewhere, the government exercises a measure of control over foreign investment through the Foreign Investment Re iew Board (FIRB). The FIRB advises the Treasurer, who controls investment approval, on investment proposals by foreign interests. Since 1984, the government has progressively liberalized foreign investment regulations to the point at which, today, the FIRB has virtually ceased to be an impediment to foreign investment not judged contrary to the national interest.

Australia is not a signatory to the GATT Government Procurement Code. A 30 percent offset requirement applies to foreign bidders on government civilian or military contracts valued at $1.9 million or more in a 1 year period. The offset requirement can be met by technology transfer, training, research and development, purchases of Australian-made products and services for export, overseas marketing, joint venture projects, venture capital investment, or administrative expenses incurred by overseas suppliers or local companies directly associated with facilitating the discharge of offset obligations. Certain further provisos apply.

The offset system may induce foreign companies to transfer proprietary information in order to meet requirements. Added cost to U.S. firms may result from performing research and development in Australia, as well as from offering proprietary, nonproprietary, or intellectual property information at reduced prices to Australian entities.

In September 1987, the Australian Government sought to quicken the pace of technology transfer and export-oriented investment by launching a Corporate Partnership Program for the Australian information industries. The program offers foreign high-technology companies relief from offset requirements in return for commitments to invest in local export-oriented research or production with established multi-year export targets. Still in its early development, the program has succeeded to date in recruiting a significant number of prominent U.S. firms in the computer field.

Opportunities for U.S. Business: In general, business opportunities for U.S. exporters to Australia should improve in 1989. The forecast for increased U.S. sales is hinged upon the continued weakness of the U.S. dollar against the currencies of Australia's other major trading partners -- Japan, the Federal Republic of Germany, and the United Kingdom.

Opportunities in specific industry sectors are as follows:

- Computer Hardware and Computer Software: ADP machines and peripherals continue to provide excellent prospects for U.S. suppliers. Imports of ADP machines (including computer software) from all sources were $490 million in FY1987/88 or 43.4 percent of total imports. Best opportunities within this market include desktop publishing, hardware that can be fitted to Telecom Australia's ISDN (Integrated Services Digital Network) when it begins operation during the next 12 months, industrial process controls, and software including CAD/CAM/CIM.

- Aerospace, Incorporating Aircraft, Avionics, and Parts for Aircraft: The estimated value of imports of aviation equipment from the United States for FY1987/88 was $393.6 million, representing 67.9 percent of the total market in this industry grouping. All three major Australian airlines have embarked on aggressive fleet renewal programs. Although U.S. sales are dominated by civil aircraft from major manufacturers, opportunities also exist for smaller firms marketing avionics, particularly in the light aircraft range.

- Chemicals: U.S. sales of organic chemicals are estimated at $230 million and represent 22 percent of the import market for such chemicals. Total imports in the subsector are estimated at $1,039 million. The total value of inorganic chemical imports for FY1987/88 was $390.6 million, with the United States holding 23 percent of the import market.

- Pumps, Centrifuges, Filtering and Purifying Apparatus and Parts: The total import market for these products was valued at $402.8 million in FY1987/88, and the estimated U.S. market share was 21 percent, valued at $84.9 million.

- Civil Engineering and Contractors' Plant and Equipment and Parts: Total imports under this grouping were estimated at $341.1 million for FY1987/88. The United States held approximately 30 percent of the market, valued at $102.1 million.

- Machinery for Specific Industries: The estimated value of imports in this grouping was $454.3 million in FY1987/88, with the United States holding 16.7 percent of the market. As Australian industry continues to modernize its machinery and its manufacturing techniques, the market in this grouping is expected to improve despite tough competition from Japan and EC suppliers.

- Electric Apparatus for Making or Breaking Electrical Circuits: Total imports for FY1987/88 were valued at $374.5 million. Imports from the United States were estimated at $65.4 million, representing 17.5 percent of the import market.